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July 1, 2008

Advisory Committee on the Auditing Profession
Office of Financial Institutions Policy
Room 1418
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

RE: Draft Report of the Advisory Committee on the Auditing Profession of
May 5, 2008

Dear Committee Members:

The Ethics Resource Center (ERC) is the oldest nonprofit in the United States devoted to the advancement of high ethical standards in public and private institutions. For more than 85 years, the ERC has been a resource for public and private institutions committed to a strong ethical culture. As an organization dedicated to advancing institutional ethics, we welcome the opportunity to comment on the Draft Report of the Advisory Committee on the Auditing Profession, issued on May 5, 2008.

This letter focuses on the Firm Structure and Finance Recommendation 1(a) to strengthen auditing firms' fraud detection and prevention skills through the creation of a national center for fraud prevention and detection. The ERC strongly supports the establishment of such a center because, if properly focused, it can serve the investing public, management, and employees by providing auditors with effective and timely tools to detect and deter financial fraud.

Since 1994, the Ethics Resource Center has fielded the National Business Ethics Survey (NBES), a nationally representative poll of employees at all levels, to understand how they view ethics and compliance in the workplace. The NBES has become the national benchmark on organizational ethics. It is the country's most rigorous measurement of trends in workplace ethics and compliance, a snapshot of current behaviors and thinking, and a guide in identifying ethics risk and measures of program effectiveness.

Over the years, ERC has polled more than 13,500 employees through NBES. It is the most exacting longitudinal research effort examining organizational ethics from the employee perspective. The long-term nature of the study is important because it provides a context for national trends.

The 2007 NBES of public and private companies revealed that fewer than one in ten has a strong ethical culture in place.

We found that the overall absence of an enterprise-wide ethical culture in so many companies creates an environment in which fraud – and activity related to fraud – is allowed to persist. For example:

- 42 percent of polled employees witnessed another employee putting his or her personal interests ahead of the company's – and 47 percent of them did not report the negative behavior they witnessed
- 5 percent witnessed the alteration of financial records – and 43 percent did not report the negative behavior they witnessed
- 5 percent witnessed the alteration of documents – and 45 percent did not report the negative behavior they witnessed.

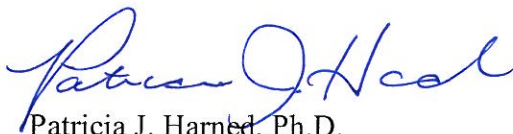
A strong ethical culture, defined by ethical leadership, supervisory reinforcement, peer commitment to ethics, and embedded ethical values has been proven to reduce ethical misconduct by some 75 percent. Equally important, the NBES and our other work reveal that understanding and measuring an organization's ethical culture is absolutely fundamental to reducing risks related to fraud.

With this in mind, as the Advisory Committee contemplates the establishment of a national center to share experiences, develop best practices and undertake research related to fraud prevention and detection, we urge it to encourage the use of empirical research to inform the center's work in the area of corporate ethics culture, as well as the recommended "industry trends and statistics." Simply sharing experience and best practices, and evaluating industry trends and statistics does not establish a vital foundation for understanding what actually engenders or contributes to financial fraud in companies. Organizational culture is the platform upon which fraudulent behavior can thrive, and that culture must be measured, evaluated and understood as well. Predicting and identifying fraud risk factors can be significantly improved by evaluating the *ethical culture* that encourages or deters fraudulent behavior, because *ethical culture* supports all employee activity – positive or negative.

We ask the Advisory Committee to be more specific in recommending that the center engage in empirical research that assesses fraud risk factors through measurement of enterprise-wide ethics culture – as well as "industry trends and statistics".

We hope that this perspective will be helpful as the Advisory Committee prepares its final report. If you have any questions or require additional information from our decades of research, please contact me. The 2007 NBES is available for review at www.ethics.org.

Sincerely,



Patricia J. Harned, Ph.D.
President